Service Date: February 4, 2000

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

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IN THE MATTER of the Application of	)	UTILITY DIVISION
MONTANA POWER COMPANY for	)	
Approval of its Electric Utility Restructuring	)	DOCKET NO. D97.7.90
Transition Plan Filed Pursuant to Senate Bill 390.	)	ORDER NO. 5986o

INTERIM ORDER REMOVING REGULATORY ASSETS FROM RATE BASE, TERMINATING ACCOUNTING ORDER FOR REGULATORY ASSETS AND EXTENDING ACCOUNTING ORDER FOR QUALIFYING FACILITY COSTS

FINDINGS OF FACT

1. On January 6, 2000, Montana Power Company (MPC) filed a request with the Montana Public Service Commission (Commission) for an interim rate reduction to remove generation related regulatory assets from rates. MPC stated that on December 17, 1999, MPC completed the sale of its generation assets and certain purchase power contracts. The sale produced a sufficient level of above-book proceeds to allow for the elimination of all generation related regulatory asset costs.

2. The Commission finds that MPC no longer requires an accounting order to account for revenues associated with these regulatory asset costs for customers who have opted for choice. Further, no need exists to collect these costs in the rates of customers who continue to receive bundled MPC service. MPC had previously stated that proceeds in excess of book value would be returned to customers. The level of regulatory asset costs inherent in current rates is $16,722,212.

3. In its request on January 6, 2000, MPC also asked for cost-recovery treatment from the Commission for out-of-market qualifying facility (QF) costs. MPC presented two options for consideration: (1) Continue using an accounting order to accumulate the unrecovered out-of-

market QF costs as deferred revenue, to be recovered prospectively from customers who opt for choice; or (2) Provide for unbundling and separately billing for the out-of-market QF component inherent in the current rate kWh production charges. MPC stated that the out-of-market QF costs inherent in current rates is $20,229,070.

4. At its duly noticed work session on February 1, 2000, the Commission approved MPC’s request to reduce rates, on an interim basis, to reflect the elimination of generation related regulatory assets. In approving the interim rate reduction the Commission is not prejudging the overall level of regulatory asset-related transition costs that MPC may be entitled to recover. The amount of regulatory asset-related transition costs will be determined in the Tier 2 phase of this case and addressed in the Commission’s final order

5. MPC should submit a compliance filing, including tariffs, that implement the interim rate reductions identified in Appendix A, page 2 of 2, of the its January 13, 2000 amendment to an interim rate adjustment filing originally dated January 6, 2000.

Accounting Orders

6. The Commission agrees that with the removal of regulatory assets from rates, there is no longer any need to have an accounting order to track those costs. The Commission terminates the accounting order pertaining to generation related regulatory assets.

7. Until the Commission issues a final order pertaining to MPC’s transition costs, MPC continues to incur the actual costs associated with its obligations under Qualifying Facility (QF) contracts. These QF costs have been previously recognized and authorized for recovery in MPC’s rates by the Commission. Until the Commission issues a final order pertaining to MPC’s QF transition costs, customers who continue to receive bundled MPC service will continue to pay their share of the actual QF costs.

8. Without an accounting order for revenues associated with actual out-of-market QF costs, customers who opt for choice would not pay their share of the actual QF costs. Therefore, it is necessary to account for these unrecovered costs as deferred revenue, which will be recovered prospectively from customers who opt for choice. The Commission approves MPC's first option to continue the accounting order. To compensate MPC for the delay in receipt of these deferred revenues, a carrying charge equal to 6 percent should be accrued on outstanding balances, compounded annually.

9. The QF deferred revenues will be determined by multiplying the kWhs of the energy released at the meter by customers who opt for choice, by a kWh charge, by customer class, that is established in the following formula, to vary by customer class as adjusted for losses:

(50.79 mills-22.00 mills) x 753,299 QF mWhs x 0.936335))
(7,537,717,436 total retail mWhs) x class loss factor

10. Nothing in this accounting order shall be considered as precedent for the treatment of these costs in any future proceeding, except as specifically stated herein, or interpreted to limit the Commission's authority in making a determination of net, unmitigatable QF transition costs in MPC's Tier 2 proceeding.

CONCLUSIONS OF LAW

1. Montana Power Company provides electric service within the State of Montana and as such is a "public utility" within the meaning of . 69-3-101, MCA.

2. The Montana Public Service Commission properly exercises jurisdiction over the Montana Power Company's rates and operations pursuant to Title 69, Chapter 3, MCA.

3. The Commission may in its discretion, within the scope of § 69-3-304, MCA, make temporary approvals of rate increases or decreases pending a hearing or final decision.

4. The rate levels and spread approved in this Order are a reasonable means of providing interim relief to MPC's customers.

ORDER

1. The Montana Power Company shall implement, on an interim basis, rates designed to decrease annual Montana jurisdictional electric revenues by ($16,722,212).

2. MPC shall adhere to and abide by all provisions in this Interim Order. All rate schedules shall comply with all determinations as set forth in this Interim Order.

3. MPC must file tariffs and associated back-up work papers in compliance with the Findings of Fact in this Interim Order.

4. Nothing in this Order precludes the Commission from adopting in its Final Order a revenue requirement different from that contained in this Interim Order.

5. Interim approval of any matters in this proceeding should not be viewed as final endorsement by the Commission of any issues, calculations, or methodologies approved in this Order.

6. This Interim Order is effective for service rendered on and after February 2, 2000.

7. The accounting order for generation related regulatory assets is terminated.

8. The Commission authorizes the recording of QF deferred revenues. The resulting regulatory assets shall be treated in conjunction with the Commission's determination of the QF transition costs attributable to those customers who opt for choice prior to a Commission final order on MPC's transition costs.

9. The accounting order for QF cost is hereby extended to December 31, 2000. Except for this extension, all findings, conclusions of law and ordering paragraphs in Order No. 5986d are carried forward to this Order, and continue to be in force and fully effective.

10. Commission staff is delegated authority to approve the compliance tariffs filed as required in this Order.

DONE AND DATED this 1st day of February, 2000, by a vote of 5-0.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

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DAVE FISHER, Chairman

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NANCY MCCAFFREE, Vice Chair

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BOB ANDERSON, Commissioner

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GARY FELAND, Commissioner

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BOB ROWE, Commissioner

ATTEST:

Kathlene M. Anderson
Commission Secretary

(SEAL)

NOTE: Any interested party may request the Commission to reconsider this decision. A motion to reconsider must be filed within ten (10) days. See ARM 38.2.4806.